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SUBJECT: SCENESETTER FOR PRESIDENT'S TRIP TO MEXICO, MARCH  
12-14, 2007

¶1. (SBU) Mission Mexico warmly welcomes you to Merida. President Calderon recognizes the broad-ranging challenges his country faces and appears to have the vision and political will to address them strategically. Having completed three months in office, he has demonstrated resolve in tackling his key policy objectives, which he believes will fundamentally transform Mexico: improving security and the rule of law, attacking poverty, and creating jobs. The U.S. and Mexico have developed a solid set of institutional relationships that allow us to work productively on most of our priorities, including fundamental issues of North American security and prosperity, and those links are set to expand. Your visit is an unmistakable sign of our support for the Calderon government -- one of our most important allies in the hemisphere -- and our dedication to this complex, interdependent relationship.

¶2. (SBU) Mexico's democratic institutions weathered a contentious presidential election, and Calderon has been quick to emerge as an activist president with a strong and respected cabinet, particularly in the security and economic areas. His security efforts are designed to reassure foreign investors and Mexicans worried about drug-related crime and lawlessness that organized criminals will no longer act with impunity. He knows that attracting investment, particularly from the U.S., is pivotal to curbing migration and narrowing the social and economic inequalities that undercut Mexican society and result in bitter political divisions. Calderon also recognizes that his vision of Mexico becoming a more prosperous country and a regional leader depends on security and the rule of law.

#### SECURITY AT THE FOREFRONT

¶3. (SBU) The new administration has moved forcefully to improve public security by significantly increasing the security budget; launching surge operations against drug traffickers in eight of the most conflictive states; working to overhaul Mexico's national police organization; advancing justice reform; and authorizing the extradition to the United States of 15 wanted criminals, including 4 drug king-pins. The president's initial actions reflect his commitment to intensify security-related cooperation with the U.S, and his willingness to incur political risk in doing so. Throughout your discussions, it will be important to convey that we understand and appreciate that Mexico is engaging in security cooperation both for its own national interests and as a responsible neighbor.

¶4. (SBU) The president fully understands the depth of our concerns about international terrorism and the transformational effect of the 9/11 attacks on USG policy, and he has signaled his strong commitment to work with us to preempt terrorist activity or entry through our shared border. While a solid foundation for joint counter-terrorism

cooperation has been established, and the GOM's efforts should be recognized, we also need to press for further progress on information sharing. With respect to WMD, the GOM -- on its own initiative -- has requested our assistance in strengthening its detection capabilities.

15. (SBU) Mexico is a central partner in USG efforts to combat drug trafficking and other trans-border threats. While taking aggressive measures to tackle organized crime at home, Calderon has also publicly urged the U.S. to boost its own efforts to drive down demand for narcotics and improve controls on arms, cash, and precursor chemicals smuggled into Mexico. He acknowledges that Mexico cannot effectively confront narco-trafficking without our cooperation and is eager for expanded assistance, including help with combating money laundering. During his recent trip to Mexico, Secretary Chertoff heard from Mexican Attorney General Medina

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Mora that Mexico's most critical law enforcement challenges are: improving the institutional strength of local, state, and federal police forces (including by unifying several autonomous police forces); dismantling the sophisticated business operations run by the drug cartels; and crafting a regional strategy encompassing the U.S., Mexico, and Central America.

16. (SBU) Mexico's southern border remains extremely vulnerable to illegal immigration, trafficking in persons, and the smuggling of contraband. It is an issue of considerable concern to the GOM, which attributes its lack of success in securing the border to its rugged and porous nature, limited enforcement infrastructure and the poor law enforcement capabilities of its southern neighbors, Guatemala and Belize. Nevertheless, progress in securing Mexico's southern border is of vital importance to our own security.

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As Mexico hopes for immigration reform in the U.S., Calderon is addressing Mexico's own immigration challenge. He has just announced plans for a Safe Southern Border Program, designed to strengthen Mexico's law enforcement efforts in the south, improve treatment of illegal migrants, and create guest worker program for Central Americans. You may wish to express support for this multilayered effort and offer U.S. law enforcement assistance.

BILATERAL RELATIONS ON A MATURE FOOTING, BUT IMMIGRATION REMAINS DIVISIVE

17. (SBU) Calderon has demonstrated pragmatism in his posture toward the United States and appears poised to build on an already modern and mature U.S.-Mexico relationship. The president's message is that Mexico will seek what it needs from us on the basis of equality, respect, and the close cooperation expected of neighbors that share wide-ranging interests and challenges. Far more than his predecessor, President Calderon recognizes that immigration reform is a U.S. domestic matter that is dependent upon U.S. congressional action. He will seek progress in a low-key effort that avoids making migration the dominant bilateral issue. Nevertheless, domestic political considerations require that he raise the issue with USG officials and that he publicly criticize measures -- such as the border fence -- that most Mexicans find offensive. The Mexican public draws little distinction between documented and undocumented migrants, seeing both as hard-working countrymen driven to the U.S. by domestic economic adversity and U.S. economic demands. Calderon will appreciate your recognition of the contributions Mexicans make to our economy and your commitment to immigration reform.

A PRESIDENT WITH INCREASING POLITICAL CAPITAL

19. (SBU) The change in atmospherics between the Fox and Calderon administrations has been evident from Calderon's

first day in office, and he has restored to the presidency an aura of authority that many believe was eroded by President Fox's more informal and disengaged manner. Although Calderon won election with a bare 36% plurality in a three-way race, the latest opinion polls show that 58% of Mexicans approve of his performance to date. Nevertheless, the political climate remains conflictive, with a congress closely divided between the president's right-of-center Political Action Party (PAN), the leftist Democratic Revolutionary Party (PRD), and the left-of-center Institutional Revolutionary Party (PRI). Although support for defeated PRD presidential candidate Andres Manuel Lopez Obrador (AMLO) has waned and his party is split, Mexico's left can still mount noisy opposition to Calderon and energize opposition legislators to stall key reforms here.

#### A PROMISING ECONOMY IN NEED OF REFORM

¶10. (SBU) Our major economic interests stem from four areas: Over USD one billion a day in bilateral trade in goods and services, much of which passes through overtaxed facilities along our common border; our need to improve competitiveness in North America; Mexico's position as our second largest oil supplier; and Calderon's stated goal of economic development to stem migration from the poorest parts of Mexico. We seek to quietly encourage Mexico to reduce barriers to the flow of legitimate trade across our common border, promote competition, reform its energy sector, professionalize its bureaucracy, strengthen education, fight poverty, and create jobs. Mexican leaders understand what needs to be done but are often blocked by vested interests, such as labor unions and business oligopolies. We will be most effective by sharing best practices, helping set the Mexican policy stage for needed actions, and providing technical assistance.

¶11. (SBU) Mexico grew by 4.8% in 2006 following 3% growth in ¶2005. Analysts expect inflation to remain under control in the current 3-4% range. We agree with Finance Minister Carstens that Mexico needs broad reform to improve tax collection, reduce reliance on oil income, confront growing pension liabilities and payments on government borrowing outside the federal budget, and provide needed spending on poverty alleviation, education, health, and infrastructure to develop the poorest parts of Mexico. Carstens, who will pick his battles carefully and is unlikely to take on some of the entrenched monopolies in the near term, has asked for U.S. technical assistance. President Calderon has also called for -- and is likely to raise with you -- expanding the mandate of the North American Development Bank in order to channel infrastructure investment to the areas of Mexican out-migration.

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#### BORDER - KEY TO COMPETITIVENESS

¶12. (SBU) The private sector North American Competitiveness Council had it right when they told the February 2007 Security and Prosperity (SPP) Ministerial that their top priority was "improving the secure flow of goods and people within North America." Facilities along the U.S.-Mexico border must be improved significantly to securely accommodate current trade levels and expected future growth. We can and must accomplish this without compromising security by, inter alia: extending and/or synchronizing operating hours at U.S. and Mexican border crossing points; sharing best practices; cutting back on redundant inspections; employing new technologies to track and speed the secure movement of cargo; identifying critical infrastructure investments needed on both sides of the border; and involving the private sector to make the North American supply chain more secure and efficient.

#### ENERGY - REFORM NEEDED TO AVERT DECLINE

¶13. (SBU) After Canada, Mexico is the largest source of U.S.

oil imports. We therefore have a strong strategic interest in continued stable supplies of Mexican oil. Within Mexico, energy is an extremely sensitive topic tied to national sovereignty, but the energy sector requires difficult reforms urgently. Because the Constitution prohibits private investment in many areas of the energy sector, the government must provide the tens of billions of investment dollars that the state oil monopoly Pemex needs. The current system will not withstand an expected steep drop in Mexican oil production, or a fall in oil prices. President Calderon, a former Energy Secretary, is looking at how to head off the expected drop in oil production.

#### CLOSING

14. (SBU) Your visit early in the Calderon presidency will demonstrate our support for a serious leader whom we expect will be among our closest hemispheric allies, reaffirm our security-related priorities and our continued commitment to the SPP framework, and ensure that our relationship with Calderon's government enjoys early momentum. Your presence here will also lay the groundwork for smooth communication with a sometimes sensitive neighbor, sending a broad signal that we are committed to working together to advance the shared interests and address the common problems of our increasingly linked countries.

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